



BERBERICH TRAHAN & CO., P.A.

*Certified Public Accountants*

# HIGHLAND COMMUNITY COLLEGE

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BASIC FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2015

HIGHLAND COMMUNITY COLLEGE  
BASIC FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2015

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HIGHLAND COMMUNITY COLLEGE  
BASIC FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2015

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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Highland Community College:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Highland Community College (the College), as of and for the year ended June 30, 2015, which collectively comprise the College's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Highland Community College Foundation (the Foundation), the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Kansas Municipal Audit and Accounting Guide, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Summary of Opinions**

Business-Type Activities	Qualified
Discretely Presented Component Unit	Unmodified

### **Basis of Qualified Opinion on the Business-Type Activities**

Management has not adopted a methodology for reconciling the tuition hours to the tuition revenue and accordingly, we were unable to obtain sufficient appropriate audit evidence to support the tuition revenue. Consequently, we were unable to determine whether any adjustments to tuition revenue were necessary.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Business-Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Business-Type Activities of the College, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Discretely Presented Component Unit of the College, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 7 to the financial statements, on July 1, 2014, the College adopted Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Government Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The schedules listed under supplementary information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules listed under supplementary information in the accompanying table of contents including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

*Barberich Trahan & Co., P.A.*

March 24, 2016  
Topeka, Kansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### Introduction

This section of HCC's Basic Financial Statements and Supplementary Information presents management's discussion and analysis of the College's financial performance during the fiscal year ended June 30, 2015 and is designed to focus on current activities. Therefore, please read this MD&A in conjunction with the accompanying financial statements and footnotes. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles. HCC has adopted GASB statements 34 and 35 on *Basic Financial Statements--and Management's Discussion and Analysis—for Public Colleges and Universities*. The standards established by the GASB principles were used for preparation of public college financial statements that focus on aggregate operations, versus the previous standards that focus on the activity of an individual fund. The report consists of three basic financial statements that provide information on the College as a whole: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. Comparative data from prior year will also be discussed.

### Background

Founded in 1858, the HCC's main campus is located in Highland, Kansas – Doniphan County. The main campus is in close proximity (within 30 miles) of a private Catholic College and a Missouri State University. Regional instruction sites are located near the University of Kansas, Washburn University and Kansas State University. The locations of HCC's regional centers attract local students and students attending neighboring universities.

HCC serves over all or parts of nine counties in Kansas, with authority to levy taxes on one - Doniphan County. HCC's revenue sources for the general fund are received from the State of Kansas, students, the taxpayers of Doniphan County and other sources.

The Kansas Board of Regents is responsible for the coordination of all 19 Kansas community colleges and for the governance and coordination of the public universities and technical schools and colleges in Kansas. A locally elected Board of Trustees, made up of six residents of Doniphan County, govern HCC.

The State of Kansas, through oversight by the Kansas Board of Regents, provides the College with an operating grant, which was historically based upon the College's full-time equivalency enrollment of Kansas residents. Other funds provided through the Kansas Board of Regents include Capital Outlay funds for technical credit courses, Technology Grant funds for student technology upgrades in the College, and Tuition Waivers for Kansas High School students participating in Postsecondary Technical Education Courses.

Fiscal year 2011 was the last year for funding for Kansas Community Colleges under Senate Bill 345. The new operating grant funding system went into effect for fiscal year 2012. However, because of the condition of the state budget, Community College funding has essentially changed to a block grant. With state aid frozen for the foreseeable future, HCC has become more reliant on student tuition and fee generation. The strategy has been to implement slight increases in tuition paired with a managed enrollment growth to offset any of the College's increases in expenses.

HCC continues to receive postsecondary aid and capital outlay funds for the technical credit courses. The revenues and the tuition and fees generated by the technical courses are received into a separate Postsecondary Technical Education fund to support the operations of the technical center in Atchison, and to provide technical course offerings at the College's other locations. The State's funding mechanism for Technical Education is also through an operating grant, which is quite similar to the operating grant provided to Community Colleges. The operating grant for Technical Education has also changed into a block grant format.

### **Economic Outlook**

The College's enrollments respond inversely to economic cycles—people tend to work more when the economy is good and continue their education more when work is less available. The economic forecast for the next year remains uncertain. The demand for job retraining, upgrading employability skills and lifelong learning will increase in the near future. Time limitations and economic pressures will influence students to enroll in classes at sites closest to their homes and workplaces, and to seek distance learning options whenever possible. We are experiencing an overall trend of increasing enrollment, which is largely attributable to online courses offerings. The use of asynchronous and distance learning instructional modalities will increase as their educational viability improves and becomes more common and accepted.

Funding of higher education will remain limited from traditional state and federal sources. Pressure will continue to increase tuition and fees to offset reduced state funding. Private fundraising efforts of the College's Foundation will grow in importance to assist students by removing financial barriers and to supplement funding for various College initiatives and operations.

Public demands for institutional accountability and effectiveness will continue to increase. The College will need to embrace innovation and continuous quality improvement efforts in academic and administrative support programs and services. Information gathering and reporting will continue to be a major requirement of the College to monitor continuous improvement and cost-effectiveness. Accrediting agency expectations will require more documented evidence of performance. Accountability measures will focus on student learning, outcomes, program completion and cost-effectiveness.



## Using This Annual Report

The financial statements focus on the College as a whole. The College's financial statements are designed to emulate corporate presentation models whereby the College activities are consolidated into one total. The focus of the Statement of Net Position is designed to be similar to bottom line results for the College. This financial statement combines and consolidates current financial resources (short-term unrestricted resources) with capital assets and long-term liabilities. The Statement of Revenues, Expenses and Changes in Net Position focuses on operating revenue, operating expenses by function, and nonoperating revenue/expenses which are supported mainly by tuition and fees, property taxes, state, federal and other revenues. This approach is intended to summarize and simplify the user's analysis of cost related to College services to students and the public.

The remainder of the MD&A highlights the structure and contents of the primary government's financial statements. For detailed information pertaining to the Foundation (the College's discretely presented component unit), refer to the separately issued Foundation financial statements for the year ended June 30, 2015.

## Comparative Analysis of Net Position – Fiscal Years 2015 and 2014

	Net Position as of June 30		Increase (Decrease)	Percent Change
	2015	2014		
<b>ASSETS</b>				
Current assets	\$ 1,984,540	\$ 3,074,308	\$ (1,089,768)	(35.4) %
Capital assets	14,350,501	14,479,109	(128,608)	(0.9)
Other assets	610,933	413,646	197,287	47.7
Total assets	16,945,974	17,967,063	(1,021,089)	(5.7)
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	46,733	57,943	(11,210)	(19.3)
<b>LIABILITIES</b>				
Current liabilities	2,557,142	2,640,220	(83,078)	(3.1)
Non-current liabilities	2,090,349	2,630,584	(540,235)	(20.5)
Total liabilities	4,647,491	5,270,804	(623,313)	(11.8)
<b>NET POSITION</b>				
Net investment in capital assets, net of related debt	12,256,770	11,804,258	452,512	3.8
Restricted	16,221	17,311	(1,090)	(6.3)
Unrestricted	72,225	932,633	(860,408)	(92.3)
Total net position	\$ 12,345,216	\$ 12,754,202	\$ (408,986)	(3.2) %

This schedule is prepared from the College's Statement of Net Position (pages 11-12) which is presented on an accrual basis of accounting and the economic resources measurement focus whereby assets are capitalized and depreciated.

The College's total net position at June 30, 2015, decreased from \$12,754,202 to \$12,345,216, which is a decrease of approximately 3%.

In fiscal year 2015, the College's total assets decreased from \$17,967,063 to \$16,945,974.

- Current assets decreased from \$3,074,308 to \$1,984,540. The decrease in current assets of approximately \$1,100,000 is attributed to decreases in cash and cash equivalents and grants receivable, combined with an increase in student accounts receivable.
  - Cash and cash equivalents decreased approximately \$670,000.
  - Grants receivable decreased approximately \$470,000.
  - Student accounts receivable increased approximately \$40,000.
- Noncurrent assets (Capital and Other assets) increased by about \$70,000.
  - Depreciation expense for FY15 was approximately \$840,000.
  - Significant Capital asset transactions during FY 2015 included the purchase and remodel of the Babcock Technical Facility in Highland, Kansas, and two substantial repaving projects on the Highland campus. The College also had 2 Building Trade homes for sale as of 6/30/2015: one in Atchison and one in Highland. Both of those homes sold subsequent to the year end.
  - The net of these transactions result in an increase in Capital and Other assets (on a historical cost basis) of approximately \$70,000.

Total liabilities decreased from \$5,270,804 to \$4,647,491.

- Current liabilities decreased from \$2,640,220 to \$2,557,142.
  - Accounts payable decreased by approximately \$125,000, or 10%. Accrued liabilities, including unearned revenue increased by a total of approximately \$40,000.
- Non-current liabilities decreased from \$2,630,584 to \$2,090,349.
  - Overall long term leases and debt decreased by approximately \$540,000. This is due to regularly scheduled principal payments.

## Fiscal Years 2015 and 2014 Financial Highlights

At June 30, 2015, the College's net position decreased from \$12,754,202 to \$12,345,216. Expenses exceeded revenues by \$408,986 as follows:

	June 30		Increase (Decrease)	Percent Change
	2015	2014		
Operating revenues	\$ 16,542,884	\$ 15,549,817	\$ 993,067	6.4 %
Nonoperating revenues	5,551,040	5,538,868	12,172	0.2
Total revenues	22,093,924	21,088,685	1,005,239	4.8
Operating expenses	22,421,213	21,377,002	1,044,211	4.9
Nonoperating expenses	81,697	94,957	(13,260)	(14.0)
Total expenses	22,502,910	21,471,959	1,030,951	4.8
Increase (decrease) in net position	(408,986)	(383,274)	(25,712)	6.7
Net position, beginning of year	12,754,202	13,137,476	(383,274)	(2.9)
Net position, end of year	\$ 12,345,216	\$ 12,754,202	\$ (408,986)	(3.2) %

Total revenues increased by \$1,005,239 – an increase of approximately 4.8 percent.

- Operating revenues increased \$993,067 – an increase of approximately 6.4%. The increase in operating revenues is largely attributed to a Kansas Senate Bill 155, which funds Kansas High School students' Postsecondary Technical Education at a higher rate than the College's standard Kansas tuition rate. Other contributing factors include a slight increase in tuition and fees, as well as an increased in enrolled credit hours.
- Nonoperating revenues increased \$12,172. This is to be expected considering Kansas State Funding is a fixed block grant, and the Doniphan County property tax mill levy has not been increased.

Total expenses increased \$1,030,951 – an increase of approximately 4.8%. These increases lie mostly in instructional and academic support expenses, due to increased enrollment and the new presence at the Western Technical Center. In addition, depreciation expense is also increasing with the addition of capital property.

In general, the ending net position for fiscal year 2015 decreased \$408,986. Details of revenues and operating expenses are covered in more detail in the subsequent financial statement sections.

## Fiscal Years 2015 and 2014 Comparative Statement of Cash Flows

The Statement of Cash Flows presents information on the College's sources and uses of cash. Operating activities primarily reflects receipts of tuition and fees, grants and auxiliary enterprises. It also reflects payments to suppliers, employees and employee benefits and payments for scholarships. Non-capital financing activities are mainly those monies received from the state operating grant, postsecondary grant aid and from the local tax base. Cash used in capital and related financing are the purchases of capital assets, purchases of textbooks, the principal paid on the deferred maintenance agreements and 2011 Certificate of Participation and related interest paid.

Cash and cash equivalents decreased in fiscal year 2015 due to increases in salaries and benefits, adjunct instructor payments and supplier expenditures. The four categories as defined by GASB are shown below:

	June 30		Increase	Percent
	2015	2014	(Decrease)	Change
Operating activities	\$ (4,191,352)	\$ (5,095,951)	\$ 904,599	(17.8) %
Non-capital financing activities	5,541,885	5,530,272	11,613	0.2
Capital financing activities	(1,884,520)	(1,208,178)	(676,342)	56.0
Investing activities	(134,950)	(114,301)	(20,649)	18.1
Net decrease	(668,937)	(888,158)	219,221	(24.7)
Cash and cash equivalents, beginning of year	1,736,907	2,625,065	(888,158)	(33.8)
Cash and cash equivalents, end of year	<u>\$ 1,067,970</u>	<u>\$ 1,736,907</u>	<u>\$ (668,937)</u>	<u>(38.5) %</u>

## Fiscal Years 2015 and 2014 Comparative Debt Service Summary

During Fiscal year 2015, the College maintained a healthy debt position. Decreases in the 2008 and 2009 loans payable and the 2010 certificates of participation were principal payments made according to the payment schedules. An additional capital lease was secured with HCC Foundation for purchase of the Western Technical Center in Baileyville, Kansas.

	June 30		Increase	Percent
	2015	2014	(Decrease)	Change
Outstanding debt service:				
2009 loan payable	\$ 67,862	\$ 101,793	\$ (33,931)	(33.3) %
2008 loan payable	121,250	242,501	(121,251)	(50.0)
2010 certificates of participation	1,470,000	1,815,000	(345,000)	(19.0)
Capital leases	481,352	573,500	(92,148)	(16.1)
Compensated absences	213,092	199,775	13,317	6.7
Early retirement incentives	36,000	108,000	(72,000)	(66.7)
Net OPEB obligation	504,942	434,251	70,691	16.3
Total outstanding debt service	<u>\$ 2,894,498</u>	<u>\$ 3,474,820</u>	<u>\$ (580,322)</u>	<u>(16.7) %</u>

## Factors Bearing on the College's Future

At the time these financial statements were prepared and audited, the College was unaware of any adverse existing circumstances that could significantly affect its financial health in the future.

## Request for Information:

This financial report is designed to provide a general overview of Highland Community College's finances to all those interested in the College's accountability for the revenue it receives. Questions, concerns, or additional information regarding this report or any information contained therein should be directed to the Vice President of Finance and Operations, 606 W. Main, Highland, Kansas 66035.

# HIGHLAND COMMUNITY COLLEGE

## STATEMENT OF NET POSITION

June 30, 2015

	<u>Primary Institution</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,063,849
Receivables:	
Grants	682,393
Accounts, net of allowances of \$ 198,811	136,476
Prepaid items	64,582
Inventories	37,240
	<hr/>
Total current assets	1,984,540
	<hr/>
Noncurrent assets:	
Restricted cash and cash equivalents	4,121
Assets held for resale	267,001
Restricted investments	12,100
Textbooks, net of accumulated depreciation of \$ 1,000,379	327,711
Capital assets:	
Land	620,320
Buildings and improvements	21,834,960
Furniture and equipment	2,984,078
Vehicles	511,365
Less accumulated depreciation	(11,600,222)
	<hr/>
Total noncurrent assets	14,961,434
	<hr/>
Total assets	16,945,974
	<hr/>
Deferred outflows of resources:	
Deferred charge on refunding	\$ 46,733
	<hr/>

(Continued)

# HIGHLAND COMMUNITY COLLEGE

## STATEMENT OF NET POSITION (Continued)

June 30, 2015

	<u>Primary Institution</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,121,861
Deposits held in custody for others	19,050
Unearned revenue	612,082
Accrued compensated absences, current portion	179,190
Early retirement incentives, current portion	36,000
Leases payable, current portion	78,778
Loans payable, current portion	155,181
Certificates of participation, current portion	355,000
	<hr/>
Total current liabilities	2,557,142
	<hr/>
Noncurrent liabilities:	
Accrued compensated absences	33,902
Net OPEB obligation	504,942
Leases payable	402,574
Loans payable	33,931
Certificates of participation	1,115,000
	<hr/>
Total noncurrent liabilities	2,090,349
	<hr/>
Total liabilities	4,647,491
	<hr/>
Net position:	
Net investment in capital assets	12,256,770
Restricted for:	
Nonexpendable:	
Endowments	16,086
Expendable:	
Other	135
Unrestricted	72,225
	<hr/>
Total net position	\$ 12,345,216
	<hr/>

See accompanying notes to financial statements.

# HIGHLAND COMMUNITY COLLEGE

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 20145

	<u>Primary Institution</u>
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$ 3,056,756)	\$ 5,343,065
Federal grants and contracts	5,141,384
State and local grants and contracts	2,241,266
Auxiliary enterprises	2,881,851
On-behalf payments	775,594
Gifts and contributions	66,283
Other operating revenues	<u>93,441</u>
Total operating revenues	<u>16,542,884</u>
Operating expenses:	
Education and general:	
Instruction	7,247,478
Academic support	2,759,407
Community service	372,502
Research	1,538
Student services	2,294,750
Institutional support	3,479,190
Operations and maintenance	980,176
Depreciation and amortization	843,507
Financial aid	1,679,987
Auxiliary enterprises	1,524,215
Auxiliary depreciation	462,869
On-behalf payments	<u>775,594</u>
Total operating expenses	<u>22,421,213</u>
Operating loss	<u>\$ (5,878,329)</u>

(Continued)



HIGHLAND COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
(Continued)

Year Ended June 30, 2015

	<u>Primary Institution</u>
Nonoperating revenues (expenses):	
State and local appropriations	\$ 3,904,432
Property taxes	1,589,596
Investment income	9,155
Interest on indebtedness	(81,697)
Other nonoperating revenues	<u>47,857</u>
Net nonoperating revenues	<u>5,469,343</u>
Decrease in net position	(408,986)
Net position - beginning of year	<u>12,754,202</u>
Net position - end of year	<u><u>\$ 12,345,216</u></u>

See accompanying notes to financial statements.

# HIGHLAND COMMUNITY COLLEGE

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

	Primary Institution
Cash flows from operating activities:	
Tuition and fees	\$ 5,301,475
Grants and contracts	7,929,891
Auxiliary enterprise charges	2,881,851
Gifts and contributions	66,283
Other receipts	93,441
Payments to suppliers	(8,032,535)
Payments to employees	(9,184,562)
Payments for employee benefits	(1,567,209)
Payments for scholarships	(1,679,987)
Net cash used in operating activities	(4,191,352)
Cash flows from noncapital financing activities:	
State appropriations	3,904,432
Property taxes	1,589,596
William D. Ford direct lending receipts	4,577,707
William D. Ford direct lending disbursements	(4,577,707)
PLUS loans receipts	40,713
PLUS loans disbursements	(40,713)
Other	47,857
Net cash provided by noncapital financing activities	5,541,885
Cash flows from capital and related financing activities:	
Purchases of capital assets	(703,689)
Purchases of textbooks	(517,141)
Principal paid on long-term debt	(592,332)
Interest paid on long-term debt	(71,358)
Net cash used in capital and related financing activities	(1,884,520)
Cash flows from investing activities:	
Proceeds from maturities of investments	24,200
Purchase of assets held for resale	(144,105)
Interest on investments	9,155
Purchase of investments	(24,200)
Net cash used in investing activities	(134,950)
Net decrease in cash and cash equivalents	(668,937)
Cash and cash equivalents, beginning of year	1,736,907
Cash and cash equivalents, end of year	\$ 1,067,970

(Continued)

# HIGHLAND COMMUNITY COLLEGE

## STATEMENT OF CASH FLOWS (Continued)

Year Ended June 30, 2015

	<u>Primary Institution</u>
Reconciliation of cash and cash equivalents to statement of net position:	
Unrestricted cash and cash equivalents	\$ 1,063,849
Restricted cash and cash equivalents	4,121
Total cash and cash equivalents, end of the year	<u>\$ 1,067,970</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (5,878,329)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	1,306,376
Changes in assets and liabilities:	
Grants receivable	465,694
Accounts receivable, net	(41,590)
Prepaid items	(16,861)
Inventories	14,678
Accounts payable and accrued liabilities	(135,625)
Deposits held in custody for others	750
Unearned revenue	81,547
Accrued compensated absences	13,317
Early retirement incentives	(72,000)
Net OPEB obligation	70,691
Net cash used in operating activities	<u>\$ (4,191,352)</u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE  
STATEMENT OF FINANCIAL POSITION  
COMPONENT UNIT

June 30, 2015

	<u>Foundation</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 216,710
Prepaid expense	4,000
Lease receivable	<u>78,778</u>
Total current assets	<u>299,488</u>
Noncurrent assets:	
Lease receivable	401,894
Restricted investments	2,061,740
Capital assets:	
Land	758,000
Buildings and improvements	19,450
Furniture and equipment	2,191
Less accumulated depreciation	<u>(18,136)</u>
Total noncurrent assets	<u>3,225,139</u>
Total assets	<u>3,524,627</u>
Liabilities:	
Current liabilities:	
Accounts payable	87,661
Note payable, current portion	<u>27,127</u>
Total current liabilities	114,788
Noncurrent liabilities:	
Note payable	<u>189,351</u>
Total liabilities	<u>304,139</u>
Net assets:	
Permanently restricted	2,420,771
Temporarily restricted	967,947
Unrestricted	<u>(168,230)</u>
Total net assets	<u><u>\$ 3,220,488</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF ACTIVITIES  
COMPONENT UNIT

Year Ended June 30, 2015

	<u>Foundation</u>
Operating revenues:	
Gifts and contributions	\$ 248,897
Net investment income	59,444
Other operating revenues	<u>85,195</u>
Total operating revenues	<u>393,536</u>
Operating expenses:	
Depreciation and amortization	376
Other operating expenses	<u>284,638</u>
Total operating expenses	<u>285,014</u>
Increase in net assets	108,522
Net assets - beginning of year	<u>3,111,966</u>
Net assets - end of year	<u><u>\$ 3,220,488</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

1 - Summary of Significant Accounting Policies

Reporting Entity

Highland Community College (the College) was established in 1858 to provide a) college transfer and general education programs which parallel those courses usually offered during the first two years of a four-year program in the professions or liberal arts; b) occupational, vocational, and technical education programming which is designed to equip an individual with a marketable skill in two years or less; and c) continuing education programs which offer educational opportunities for personal growth, economic improvement, cultural development, and enrichment of personal and family living. For financial reporting purposes, the College is considered a special purpose government engaged only in business-type activities.

The Board of Trustees (the Board), a six-member group constituting an on-going entity, has governance responsibilities over all activities related to the College. In addition to revenues from student tuition and fees and from auxiliary enterprises of the College, the College receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have policy making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

As required by accounting principles generally accepted in the United States of America, these financial statements are presented for the College and its component unit, an entity for which the College is considered to be financially accountable. The discretely presented component unit is reported in separate statements in the basic financial statements to emphasize it is legally separate from the College. The discretely presented component unit has a June 30 year end.

*Discretely-presented component unit.* Highland Community College Foundation (the Foundation) is a Kansas non-profit organization created to assist in the receipt, management, and distribution of economic resources to build and maintain academic and support programs for the College.

Complete financial statements for the Foundation may be obtained at the Foundation's administrative office at 606 W. Main, Highland, KS 66035.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the College meets the cash flow needs of its activities. All significant intra-agency transactions have been eliminated.

The College distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with ongoing operations. The principal operating revenues of the College are student tuition and fees and sales and services of auxiliary enterprises, net of scholarship discounts and allowances. Operating expenses include the costs of providing education and auxiliary services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonoperating transactions include property taxes, state and local appropriations, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenue from state and local appropriations and other contributions is recognized in the year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the College must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the College on a reimbursement basis.

When both restricted and unrestricted resources are available, it is the College's policy to use restricted resources first.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

For the purposes of the statement of cash flows, the College considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are carried at the original amount less an estimate made for uncollectibles. Management determines the allowance for uncollectibles by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received.

Inventories

Inventories are recorded at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method.

Investments

The College's investments include nonnegotiable certificates of deposit. The certificates of deposit are recorded at cost because they are not affected by market rate changes. The Foundation's investments are recorded at fair value based on quoted market prices. Unrealized gains and losses related to changes in fair value are reported in the Foundation's statement of activities.

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and, therefore, will *not* be recognized as an outflow of resources (expense or expenditure) until then. The College only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported on the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.



HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Textbooks

Textbooks are assets that are being rented to the students of the College. Textbooks are depreciated using the sum-of-the-years digits method over their estimated useful life of three years. Depreciation expense is recorded in auxiliary enterprises.

Assets Held for Resale

Assets held for resale are houses built by the Technical Center Division of the College (the Technical Center) students and sold to the public once the housing project is complete. Assets held for resale are recorded at cost which approximates fair value. The proceeds of the sales are used to fund future housing projects. The College had \$ 267,001 in assets held for resale at June 30, 2015.

Capital Assets

Capital assets include land, buildings and improvements, furniture and equipment, and vehicles. Capital assets are defined as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major additions and improvements are capitalized. When assets are sold, the gain or loss on the sale is recorded as non-operating gains or losses. The College capitalizes interest on the construction of capital assets when material.

The College's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets. The estimated useful lives are:

Buildings	39 - 40 years
Building improvements	5 - 20 years
Furniture and equipment	3 - 50 years
Vehicles	5 - 15 years

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The Foundation values donated capital assets at the estimated fair market value of the asset at the time of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Unearned Revenue

Tuition and fees received before year end which relate to the subsequent period are reported as unearned on the statement of net position.

Compensated Absences

The College provides paid vacation to classified personnel based on length of service on a calendar year basis. The College provides paid vacation to administrative personnel at a standard rate, regardless of years of service. A maximum of 22 days may be carried over to the following year for vacation leave. Employees are paid for accumulated vacation upon termination of employment.

The provision for and accumulation of sick leave is based upon employment classification. Only retiring professional employees are compensated for unused sick leave. The maximum amount of accrued sick leave for which a retiring employee may be compensated is 25 percent of their accrued sick leave balance but not to exceed twenty work days.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

On-behalf Payments for Employee Benefits

The College recognizes revenues and expenses for the contributions made by the State of Kansas to the Kansas Public Employees Retirement System (KPERS) on behalf of the College's employees. On July 1, 2014, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Since the State funds the employer contributions for community colleges, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68. The State is treated as a nonemployer contributing entity in KPERS. Since these employers do not contribute directly to KPERS, there is no net pension liability or deferred inflows or outflows to report in their financial statements. See Note 7 for disclosures regarding the State's portion of the College's total proportionate share of the collective net pension liability that is associated with the College.

Net Position

Net position is classified as follows:

Net investment in capital assets – This represents the total investment in capital assets, net of accumulated depreciation and related debt.

Restricted net position – nonexpendable – This includes resources that are for endowment purposes. The corpus of the endowment is restricted by external third parties and cannot be expended.

Restricted net position – expendable – This includes resources that are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, then unrestricted resources when they are needed.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Unrestricted net position – This includes resources derived from student tuition and fees, state and local appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to educational and general operations and may be used at the discretion of the governing board to meet current expenses for any purpose.

Property Taxes

The lien date for property taxes is January 1. Property taxes are levied on November 1. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 of the year levied, with the balance to be paid on or before May 10 of the ensuing year. Property taxes become delinquent on December 20 of each fiscal year if the taxpayer has not remitted at least one-half of the amount due. Billing and collection is done by Doniphan County. Assessed values are established by the Doniphan County appraiser's office.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pending Governmental Accounting Standards Board Statements

The Governmental Accounting Standards Board (GASB) has issued the following statements not yet implemented by the College.

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. The objective of this statement is to address financial reporting issues related to fair value measurements. The statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this statement are effective for periods beginning after June 15, 2015.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The provisions of this statement are effective for financial statements for the College's fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures*, increases the disclosure requirements for tax abatements affecting the government entity and its ability to raise resources in the future. This standard applies to a reporting government's own tax abatement agreements or agreements entered into by other governments and that reduce the reporting government's tax revenues. The government that enters into the agreement must begin disclosing (1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provision for recapturing abated taxes, and the types of commitments made by tax abatement recipients, (2) the gross dollar amount of taxes abated during the period and (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. For governments impacted by other governments' tax abatements, the following must be disclosed: (1) the names of the governments that entered into the agreements, (2) the specific taxes being abated, and (3) the gross dollar amount of taxes abated during the period. The provisions of this statement are effective for financial statements for the College's fiscal year ending June 30, 2017.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the current funds - unrestricted and plant funds. The statutes provide for the following sequence and timetable for the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding fiscal year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended June 30, 2015.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds.

All legal annual operating budgets are prepared using the cash basis of accounting, modified by the recording of encumbrances. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the College for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the Board.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Budgetary Information (Continued)

Statutory Noncompliance

The College is not able to provide actual budgetary activity that is comparable to the published budget for fiscal year 2015. In addition, unencumbered cash by individual fund cannot be determined.

3 - Cash and Investments

*Credit Risk.* Kansas statutes authorize the College to invest in time deposits, open accounts, certificates of deposit, repurchase agreements, U.S. Treasury bills or notes, or the State Treasurer's Municipal Investment Pool. All College deposits and investments are in cash and certificates of deposit at banks within Doniphan County.

*Custodial credit risk - deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Statutes also require that collateral pledged must have a fair market value equal to 100% of the deposits, less insured amounts, and must be assigned for the benefit of the College. At June 30, 2015, the College's deposits were not exposed to custodial credit risk.

*Concentration of credit risk.* The College's deposit policy does not place any limitations on the percentage of the College's total deposits that may be with any one issuer. Kansas statutes indirectly prohibit such a limitation, as local banks must be given preference on each investment of idle funds.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

3 - Cash and Investments (Continued)

Investments held by the Foundation consisted of the following at June 30, 2015:

	Cost	Fair Value	Unrealized Gain (Loss)
Cash and sweep balance	\$ 81,164	\$ 81,164	\$ -
Preferred/fixed rate capital securities	152,943	146,098	(6,845)
Mutual funds	932,217	1,003,879	71,662
Stock options & ETF	372,921	429,264	56,343
Other stock	226,971	241,784	14,813
REIT	155,000	159,551	4,551
	<u>\$ 1,921,216</u>	<u>\$ 2,061,740</u>	<u>\$ 140,524</u>

Investment income of the Foundation consisted of the following for the year ended June 30, 2015:

Interest and dividends	\$ 111,072
Lease interest income	5,438
Partnership distribution	9,945
Realized gains	18,601
Unrealized loss	(49,623)
	<u>\$ 95,433</u>



HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

4 - Capital Assets

Summaries of changes in capital assets follow:

	Balance July 1, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
<u>Highland Community College:</u>					
Capital assets not being depreciated:					
Land	\$ 620,320	\$ -	\$ -	\$ -	\$ 620,320
Construction in progress	31,000	37,242	-	(68,242)	-
Total capital assets not being depreciated	651,320	37,242	-	(68,242)	620,320
Capital assets being depreciated:					
Buildings and improvements	21,464,415	302,303	-	68,242	21,834,960
Furniture and equipment	2,634,156	349,922	-	-	2,984,078
Vehicles	497,148	14,217	-	-	511,365
Total capital assets being depreciated	24,595,719	666,442	-	68,242	25,330,403
Less accumulated depreciation for:					
Buildings and improvements	(8,417,494)	(595,040)	-	-	(9,012,534)
Furniture and equipment	(1,972,868)	(215,689)	-	-	(2,188,557)
Vehicles	(377,568)	(21,563)	-	-	(399,131)
Total accumulated depreciation	(10,767,930)	(832,292)	-	-	(11,600,222)
Total capital assets being depreciated, net	13,827,789	(165,850)	-	68,242	13,730,181
Total capital assets, net	<u>\$ 14,479,109</u>	<u>\$ (128,608)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,350,501</u>
<u>Foundation:</u>					
Capital assets not being depreciated:					
Land	\$ 758,000	\$ -	\$ -	\$ -	\$ 758,000
Capital assets being depreciated:					
Buildings and improvements	19,450	-	-	-	19,450
Furniture and equipment	2,191	-	-	-	2,191
Total capital assets being depreciated	21,641	-	-	-	21,641
Less accumulated depreciation	(17,761)	(375)	-	-	(18,136)
Total capital assets being depreciated, net	3,880	(375)	-	-	3,505
Total capital assets, net	<u>\$ 761,880</u>	<u>\$ (375)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,505</u>

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

5 - Operating Leases

The College has an operating lease for office equipment. Future payments required under the operating lease agreement are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 105,000
2017	105,000
2018	<u>78,750</u>
	<u><u>\$ 288,750</u></u>

The College has a sponsorship agreement with the American Bottling Company. Future payments required under the agreement are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 10,000
2017	<u>10,000</u>
	<u><u>\$ 20,000</u></u>

Operating lease expense related to these agreements was \$ 115,000 for the year ended June 30, 2015.

The facilities and properties used by the Technical Center are owned by the Atchison Unified School District No. 409 (the District). As a result, the College entered into a lease agreement in 2008 with the District for use of the facilities and properties. The initial lease terms are for a ten year period. At the expiration of the lease, the parties may, at their option, extend the lease terms for an additional ten year period. Under the lease agreement, in lieu of paying rent to the District, the College is responsible for paying insurance, maintenance, and utility costs of the facility and property during the lease term. Any construction or improvements to the facility remain the property of the District.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Long-Term Debt

During the year ended June 30, 2011, the College issued 2010 Series Refunding and Improvement Certificates of Participation in the amount of \$ 3,055,000. The 2010 Series certificates of participation are due in annual installments ranging from \$ 355,000 to \$ 385,000 and mature between March 1, 2016 and March 1, 2019. The certificates of participation bear interest at rates ranging from 2.0% to 2.9% payable semi-annually. The remaining balance at June 30, 2015 is \$ 1,470,000.

The certificates maturing on March 1, 2018 and thereafter are subject to redemption on or after March 1, 2017 at the option of the College at a price equal to 100% of the principal portion outstanding plus the any accrued interest to the prepayment date.

The annual debt service requirement to amortize the certificates of participation is as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 355,000	\$ 38,150	\$ 393,150
2017	360,000	30,340	390,340
2018	370,000	21,340	391,340
2019	385,000	11,165	396,165
	<u>\$ 1,470,000</u>	<u>\$ 100,995</u>	<u>\$ 1,570,995</u>

Capital Leases Payable

In August 2009, the College entered into an agreement to lease two houses purchased by the Foundation. The terms of the agreement call for eight annual payments of \$ 24,500 plus interest at 6% per annum to be paid by the College to the Foundation with the first payment commencing April 1, 2010. Upon termination of the lease, the College may take title to the buildings for no additional consideration. Accordingly, the College has recorded the buildings as capital assets.

In fiscal year 2014, the Foundation purchased property and facilities in Baileyville, Kansas and then sold the property to the College for \$ 350,000 for a satellite learning center. The Foundation also loaned the College \$ 150,000 for construction costs to prepare the facilities for use. The total amount due from the College to the Foundation is \$ 432,352 at June 30, 2015. The property was sold to the College per an installment sale with an interest rate of 4.35%.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Long-Term Debt (Continued)

Capital Leases Payable (Continued)

The cost of and accumulated depreciation on the assets are as follows at June 30:

Houses

Cost	\$	196,000
Accumulated depreciation		28,060

Baileyville Building

Cost	\$	350,000
Accumulated depreciation		13,462

Amortization of \$ 14,000 in 2015 on the assets acquired through the capital leases has been included in depreciation expense.

Future payments required under the capital lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 24,500	\$ 2,940	\$ 27,440
2017	24,500	1,470	25,970
	<u>\$ 49,000</u>	<u>\$ 4,410</u>	<u>\$ 53,410</u>

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Long-Term Debt (Continued)

Year Ending June 30,	Principal	Interest	Total
2016	\$ 54,278	\$ 18,807	\$ 73,085
2017	56,640	16,446	73,086
2018	59,103	13,982	73,085
2019	61,674	11,411	73,085
2020	64,358	8,729	73,087
2021-2023	136,299	8,937	145,236
	<u>\$ 432,352</u>	<u>\$ 78,312</u>	<u>\$ 510,664</u>

Loans Payable

The College entered into a loan agreement with the Kansas Board of Regents (the KBOR) for deferred maintenance costs effective March 2008. The College has four deferred maintenance projects approved under this loan agreement. The College must pay for construction costs upfront and request reimbursement for actual costs. The loan is for a term of eight years and a total not to exceed \$ 970,000. The College must pay 1/8 of the total loan amount (\$ 121,250) on or before December 1 in each of the eight years of the amortization period, beginning December 1, 2008. Repayments must be made in accordance with this schedule regardless of whether the College has requested and/or received loan disbursements. The loan does not bear interest. The balance of the loan payable was \$ 121,250 at June 30, 2015.

The College entered into another loan agreement with the KBOR for deferred maintenance costs effective March 2009. The College has five deferred maintenance projects approved under this loan agreement. The College must pay for construction costs upfront and request reimbursement for actual costs. The loan is for a term of eight years and a total not to exceed \$ 241,100. The College must pay 1/8 of the total loan amount on or before December 1 in each of the eight years of the amortization period, beginning December 1, 2009. The annual payment due is \$ 33,931. Repayments must be made in accordance with this schedule regardless of whether the College has requested and/or received loan disbursements. The loan does not bear interest. The balance of the loan payable was \$ 67,862 at June 30, 2015.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Long-Term Debt (Continued)

Changes in Long-Term Debt

Current fiscal year transactions are summarized as follows:

	Balance, July 1, 2014	Additions	Reductions	Balance, June 30, 2015	Due Within One Year
Certificates of participation					
Series 2010	\$ 1,815,000	\$ -	\$ 345,000	\$ 1,470,000	\$ 355,000
2008 loan payable	242,501	-	121,251	121,250	121,250
2009 loan payable	101,793	-	33,931	67,862	33,931
Capital lease payable	573,500	-	92,148	481,352	78,778
Compensated absences	199,775	196,386	183,069	213,092	179,190
Net OPEB obligation	434,251	70,691	-	504,942	-
Early retirement incentives	108,000	-	72,000	36,000	36,000
	<u>\$ 3,474,820</u>	<u>\$ 267,077</u>	<u>\$ 847,399</u>	<u>\$ 2,894,498</u>	<u>\$ 804,149</u>

7 - Defined Benefit Pension Plan

*Description of Pension Plan.* The College participates in a cost-sharing multiple-employer defined benefit pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

- Public employees, which includes:
  - State/School employees
  - Local employees
- Police and Firemen
- Judges

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the College are included in the Local employee group.

KPERS issues a stand-alone comprehensive annual financial report, which is available on the KPERS website at [www.kpers.org](http://www.kpers.org).

*Benefits Provided.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the Kansas Legislature. Member employees with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 points.

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

7 - Defined Benefit Pension Plan (Continued)

*Contributions.* K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member employee contribution rates. Effective January 1, 2015, KPERS has three benefit structures and contribution rates depend on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009 and before January 1, 2015. KPERS 3 members were first employed in a covered position on or after January 1, 2015. Kansas law establishes the KPERS member employee contribution rate at 5% of covered salary for KPERS 1 members and 6% of covered salary for KPERS 2 members through December 31, 2014. On January 1, 2015, Kansas law increased the KPERS member employee contribution rate to 6% of covered salary for KPERS 1 members; however, the KPERS 2 member employee contribution rate remained at 6% of covered salary. Kansas law establishes the KPERS 3 member employee rate at 6%. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

The employer contributions for the College are funded 100% by the State of Kansas on behalf of the employer. Therefore, the College is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. State law provides that the contribution rates paid by the State on behalf of the College be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. The actuarially determined contribution rate (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rate were 15.12% and 10.27%, respectively, for the fiscal year ended June 30, 2014. The actuarially determined contribution rate was 15.41% for the fiscal year ended June 30, 2015. The statutory contribution rate paid by the State was 11.27% from July 1, 2014 to September 30, 2014, 8.65% from October 1, 2014 to March 31, 2015 and 11.06% from April 1, 2015 to June 30, 2015.

*Pension liabilities and pension expense.* At June 30, 2015, the State support provided to the College reduced the College's net pension liability to zero. The State's proportionate share of the net pension liability associated with the College is \$ 11,052,676. The net pension liability was measured by KPERS as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014.



HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

7 - Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2015, the College recognized pension expense and revenue of \$ 775,594, for support provided by the State in the form of non-employer contributions to KPERS on the College's behalf.

*Actuarial assumptions.* The total pension liability for KPERS in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.00 percent
Wage inflation	4.00 percent
Salary increases, include wage increases and inflation	4.00 - 12.50 percent
Long-term rate of return, net of investment expense, and including inflation	8.00 percent

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2009.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

7 - Defined Benefit Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47.00%	6.00%
Fixed income	14.00%	0.85%
Yield driven	8.00%	5.50%
Real return	11.00%	3.75%
Real estate	11.00%	6.65%
Alternatives	8.00%	9.50%
Short-term	1.00%	0.00%
	<u>100.00%</u>	
Total	<u>100.00%</u>	

*Discount rate.* The discount rate used by KPERS to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State/School subgroup of employers does not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for this group may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

7 - Defined Benefit Pension Plan (Continued)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

*Subsequent events.* Under the budgetary allotment process for the State of Kansas, the Kansas governor has authority to reduce the approved budget for purposes of balancing the budget. For the State's fiscal year ending June 30, 2015, the KPERS employer contribution to the State/School group was reduced by \$58 million. It is unknown at the time whether this reduction will have a significant effect on the State's proportionate share of the KPERS collective net pension liability associated with the College, or an effect on any actuarial assumptions used by KPERS to calculate the net pension liability.

During the 2015 state legislative session, Senate Bill 228 was passed authorizing the issuance of one or more series of revenue bonds to provide deposits to KPERS in a total amount not to exceed \$1 billion. The purpose of such bond issuance would be for financing a portion of the unfunded actuarial pension liability of KPERS, which would also have an effect on the collective net pension liability. Final issuance of such bonds must be approved by a resolution of the State Finance Council. On August 20, 2015, the State issued \$1,005,180,000 of bonds in accordance with this bill. The effect of this bond issuance on the State's proportionate share of the KPERS collective net pension liability associated with the College is unknown at this time.

8 - Other Postemployment Healthcare Benefits

*Description.* The College offers postemployment health and dental insurance to retired employees. The benefits are provided through fully insured contracts that collectively operate as a single employer defined benefit postemployment healthcare plan administered by the College. Kansas statutes provide that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements until the individuals become eligible for Medicare coverage at age 65. The health and dental insurance benefit provides the same coverage for retirees and their dependents as for active employees and their dependents. The benefit is available for selection at retirement and is extended to retirees and their dependents until the individuals become eligible for Medicare at age 65. Eligibility for retirement is based on the retirement provisions of the Kansas Public Employees Retirement System. A retiring employee who waives continuing participation in the College's health insurance program at the time of retirement is not eligible to participate at a later date. The plan does not issue a stand-alone financial report.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

*Funding Policy.* The College provides health and dental insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statutes, which may be amended by the state legislature, establish that participating retirees may be required to contribute to the employee group health benefits plan, including administrative costs at an amount not to exceed 125 percent of the premium cost for other similarly situated employees.

The College requires participating retirees to contribute 100 percent of the blended premium cost of active employees to maintain coverage.

The College appropriates funds annually for the costs associated with this retirement benefit and provides funding for expenditures on a pay-as-you-go basis through the College's general operating fund. During the year ended June 30, 2015, the College had three retirees covered under the plan; therefore, the College contributed \$ 9,874 to the plan.

*Annual OPEB Cost and Net OPEB Obligation.* The College's annual OPEB (other post employment benefit) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of time not to exceed thirty years. The following presents the components of the College's annual OPEB cost for the year ended June 30, 2015, the amounts contributed to the plan, and changes in the College's net OPEB obligation.

Annual required contribution	\$ 73,241
Interest on net OPEB obligation	15,200
Adjustment to annual required contribution	<u>(17,750)</u>
Annual OPEB cost (expense)	70,691
Net OPEB obligation, beginning of year	<u>434,251</u>
Net OPEB obligation, end of year	<u><u>\$ 504,942</u></u>

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 70,691	0%	\$ 504,942
2014	67,077	0%	434,251
2013	67,467	0%	367,174

*Funded Status and Funding Progress.* As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$ 497,011. The College's policy is to fund the benefits on a pay-as-you-go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 497,011. For the year ended June 30, 2015, the covered payroll (annual payroll of active employees covered by the plan) was \$ 6,722,096, and the ratio of the UAAL to the covered payroll was 7.39 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was applied. The actuarial assumptions included a 3.5 percent discount rate, which is a blended rate of the expected long-term investment return on the College's own investments calculated based on the funded level of the plan at the valuation date. The valuation used an actual annual healthcare cost trend rate percent in the first year and assumed an annual healthcare cost trend rate of 6.5% grading down to an ultimate of 5.0% over 5 years. The valuation did not assume a dental cost trend rate because no employer age-subsidy may exist since both actives and retirees pay the carrier rate. The UAAL is being amortized using a level percentage of projected payroll on an open basis over a period of thirty years and assuming a payroll increase of 2.0 percent per year.

9 - Transactions with the Foundation

The Foundation uses College employees to perform Foundation operations. The Foundation reimburses the College for a portion of the executive director's salary and all of the bookkeeper's salary. All payroll and withholding activities for these employees are performed by the College. The amounts paid to the College for salaries and benefits during the year ended June 30, 2015 were approximately \$ 13,800.

During 2009, an agreement was created between the College and the Foundation which transferred the Brown County land and building to the Foundation from the trust at the fair value of \$ 777,450 based on Brown County's appraisal of the property. The land and building are restricted for endowment based on the requirements of the trust agreement. Additionally, the Foundation entered into an agreement with the College to lease the Brown County land to the College. The College is to receive the farm cash rent from the property and pay 33% of the farm cash rent to the Foundation. The College also has the right to purchase the property for a sum of \$ 1,000 to be exercised at any time. The lease with option to purchase shall terminate on July 1, 2029 with the right to renew for an additional 21 years. The Foundation is responsible for paying the real estate taxes on the property and the College is responsible for paying all insurance and other costs associated with farming and maintaining the property as well as capital improvements.

HIGHLAND COMMUNITY COLLEGE  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Commitments and Contingencies

The College is a party to various claims arising in the ordinary course of business. While the results of litigation and claims cannot be predicted with certainty, based on advice of counsel and considering insurance coverage, management believes that the final outcome of such matters will not have a material effect on the College's financial position.

11 - Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant change in insurance coverage from the previous fiscal year. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

## REQUIRED SUPPLEMENTARY INFORMATION



HIGHLAND COMMUNITY COLLEGE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 581,333	\$ 581,333	0.0%	\$ 4,848,619	11.99%
7/1/2011	\$ -	\$ 469,258	\$ 469,258	0.0%	\$ 5,810,780	8.08%
7/1/2014	\$ -	\$ 497,011	\$ 497,011	0.0%	\$ 6,722,096	7.39%

HIGHLAND COMMUNITY COLLEGE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
PENSION LIABILITY

June 30, 2015

College's proportion of the collective net pension liability	0.000%
College's proportionate share of the collective net pension liability	\$ -
State's proportionate share of the collective net pension liability associated with the College	<u>11,052,676</u>
Total	<u><u>\$ 11,052,676</u></u>
College's covered-employee payroll	\$ 7,738,851
College's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	66.60%

\*GASB 68 requires presentation of ten years. As of June 30, 2015, only one year of information is available.

# HIGHLAND COMMUNITY COLLEGE

## REQUIRED SUPPLEMENTARY INFORMATION

### SHARE OF THE COLLECTIVE NET PENSION LIABILITY KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

June 30, 2015

Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	-
Contribution deficiency (excess)	\$ -
College's covered-employee payroll	\$ 7,738,851
Contributions as a percentage of covered-employee payroll	0.00%

\*GASB 68 requires presentation of ten years. As of June 30, 2015, only one year of information is available.

*Changes in benefit terms for KPERS.* Effective January 1, 2014, KPERS 1 members' employee contribution rate increased to 5.0% and then on January 1, 2015, increased to 6.0% with an increase in benefit multiplier to 1.85% for future years of service. For KPERS 2 members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

## SUPPLEMENTARY INFORMATION

# HIGHLAND COMMUNITY COLLEGE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture: Passed through Kansas Department of Agriculture: Specialty Crop Block Grant Program	10.170	\$ 38,223
U.S. Department of Labor: Passed through Washburn University: Technical Retraining to Achieve Credentials	17.282	29,601
National Science Foundation: Education and Human Resources	47.076	81,257
Passed through Missouri State University: Viticulture and Enology Science and Technology Alliance - Education and Human Resources	47.076	48,184
Total National Science Foundation		129,441
U.S. Department of Education: Higher Education - Institutional Aid	84.031A	819,489
TRIO - Student Support Services	84.042A	199,930
Student Financial Assistance Cluster: Federal Supplemental Educational Opportunity Grant Program	84.007	43,811
Federal Work Study Program	84.033	82,686
Federal Pell Grant Program	84.063	3,669,432
Federal Direct Student Loans	84.268	4,618,420
Student Financial Assistance Cluster subtotal		8,414,349
Passed through Kansas Board of Regents: Adult Education	84.002	54,254
Carl Perkins Program Improvement	84.048	122,597
		176,851
Total U.S. Department of Education		9,610,619
Total federal award expenditures		\$ 9,807,884

See accompanying notes to schedule of  
expenditures of federal awards.

## HIGHLAND COMMUNITY COLLEGE

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2015

1 - General

The accompanying schedule of federal awards presents the activity of all federal award programs of the College.

2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

3 - Guaranteed Student Loans

Guaranteed student loans, including subsidized and unsubsidized direct student loans, are presented on the basis of the amount of loans awarded and are made by the Secretary of Education rather than by the College. Due to this program being a transaction between the student and the loan origination center, these loans are not recorded in the College's financial statements. Due to the College's responsibility for determining eligibility and administering the loans, they have been included in the schedule of expenditures of federal awards.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2015

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	Qualified
Internal control over financial reporting:	
Material weaknesses identified:	Finding 2014-001 Finding 2014-004 Finding 2014-005
Significant deficiencies identified that are not considered to be material weaknesses:	Finding 2014-003
Noncompliance material to the financial statements:	Finding 2014-002

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified:	Finding 2014-001 Finding 2015-001 Finding 2015-002
Significant deficiencies identified that are not considered to be material weaknesses:	Finding 2012-002 Finding 2015-003 Finding 2015-004 Finding 2015-005

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Type of auditor's report issued on compliance for major programs:

Student Financial Assistance Cluster:	Qualified – Special Tests and Provisions - No. 4 Return of Title IV Funds
Higher Education – Institutional Aid:	Qualified – Allowable Costs/Cost Principles

Any audit findings that are required to be reported in  
accordance with Section 510(a) of Circular A-133:

Findings 2012-002, 2014-001, 2015-  
001, 2015-002, 2015-003, 2015-004,  
and 2015-005

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007	Student Financial Assistance Cluster:
84.033	Federal Supplemental Educational
84.063	Opportunity Grant Program
84.268	Federal Work Study Program
	Federal Pell Grant Program
	Federal Direct Student Loans
84.031A	Higher Education – Institutional Aid

Dollar threshold used to distinguish between Type A  
and Type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee:

No



HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II – Financial Statement Findings**

**Finding 2014-001 – Material Weakness (Repeated)**

*Condition* – Significant asset and liability accounts are not recorded or reconciled on the College's general ledger system in a timely manner. The computer system for maintaining student accounts receivable information cannot show an appropriate roll-forward balance. The accounts receivable system allows different departments to make changes to student balances for any semester at any time. Tuition revenues were not able to be reconciled to tuition hours and the general ledger.

*Criteria* – The College's internal controls should be designed to ensure financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in a timely manner.

*Cause* – The College's financial reporting internal control structure is not functioning in a manner that allows the College to maintain information to provide financial statements in accordance with GAAP in a timely manner.

*Effect* – Although the College continues to make strides in identifying significant journal entries, there remained required journal entries which were not initially identified by the College's internal controls. Reconciliation in such areas as cash, receivables, unearned revenues, and other accrued liabilities were not performed timely resulting in financial statements not being maintained in accordance with GAAP.

*Recommendation* – We recommend the College implement controls and processes to record all adjustments needed to present financial statements in accordance with GAAP in a timely manner.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – The June 2014 to July 2014 year end roll forward was the first closing done in the integrated PowerCAMPUS – GP Dynamics environment. Staff was not yet trained in the best way to handle the differences between terms and dates, to ensure a clean cutoff for tuition evaluation purposes, and for student accounts receivable. The June 2015 cutoff was clean, meaning that tuitions for the Fall 2015 semester are correctly recorded in the 2016 fiscal year.

Management is evaluating personnel and procedures to remedy weaknesses and will incorporate processes to comply.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II – Financial Statement Findings (Continued)**

**Finding 2014-002 – Material Noncompliance (Repeated)**

*Condition* – The College is not able to provide actual budgetary activity that is comparable to the published budget for fiscal year 2015. In addition, unencumbered cash by individual fund cannot be determined.

*Criteria* – The College’s internal controls and financial reporting processes should be designed to ensure compliance with Kansas statutes (specifically K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935).

*Cause* – The College’s financial reporting internal control structure was not designed to allow the College to maintain information to provide budgetary information in accordance with the Kansas Municipal Audit and Accounting Guide.

*Effect* – The College is not able to demonstrate compliance with K.S.A. 10-1117, K.S.A. 79-2934, or K.S.A. 79-2935.

*Recommendation* – We recommend the College implement controls and processes to report budgetary information to be in compliance with K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935.

*Management’s Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – As staff gains experience with the new system, funds history is accumulated and familiarity with processes is developed, management feels that comparisons of actual to budget are achievable and resources will be devoted to comply.

**Finding 2014-003 – Significant Deficiency (Repeated)**

*Condition* – One employee has the ability to access the payroll system, process payroll, and generate signed checks. In addition, one employee has the ability to access the accounts payable system, process accounts payable checks, and generate signed checks. Lastly, a supervisor has the ability to process and generate signed checks.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II – Financial Statement Findings (Continued)**

**Finding 2014-003 – Significant Deficiency (Repeated) (Continued)**

*Criteria* – The College’s internal controls should be designed to ensure proper segregation of duties in the cash disbursement cycle.

*Cause* – The College’s payroll, accounts payable, and check writing controls are not properly designed to appropriately segregate duties for certain employees.

*Effect* – The lack of segregation of duties could lead to potential errors or fraud.

*Recommendation* – We recommend the College implement controls and processes that allow for the segregation of duties within the payroll and accounts payable cycles and to segregate the duties between processing and review.

*Management’s Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – Management is evaluating personnel and procedures to remedy the weakness and will incorporate processes to comply. Given the small number of staff in the office, a formal signoff procedure may be incorporated and efforts will be made to ensure that no single individual will initiate, process and generate checks, either in payroll or in accounts payable cycles.

**Finding 2014-004 – Material Weakness (Repeated)**

*Condition* – One supervisory employee has the ability to process and record journal entries that are not reviewed by another employee. This same employee is responsible for review of the bank reconciliation and has the ability to process and generate signed checks. All but three of the journal entries tested were not properly supported with valid documentation.

*Criteria* – The College’s internal controls should be designed to ensure proper segregation of duties and review in the journal entry process, as well as maintaining appropriate supporting documentation.

*Cause* – The College’s controls over journal entries controls are not properly designed to appropriately segregate duties as well as maintain the valid supporting documentation.

*Effect* – The lack of segregation of duties and lack of supporting documentation could lead to potential errors or fraud.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II – Financial Statement Findings (Continued)**

**Finding 2014-004 – Material Weakness (Repeated) (Continued)**

*Recommendation* – We recommend the College implement controls and processes that allow for the segregation of duties within the journal entry cycle and to segregate the duties between processing and review. We also recommend that all journal entries be supported when the journal entry is made in the general ledger and that support be maintained by the College.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – A review process will be implemented for journal entries. Reorganization within the business office will result in segregation of duties and management feels adequate controls can be put in place.

**Finding 2014-005 – Material Weakness (Repeated)**

*Condition* – The bank reconciliations from July 2014 – June 2015 were not completed in a timely manner after each month-end and did not show signs of review. In addition, July 2014 – June 2015 reconciliations were not completed accurately, including tying the reconciled balance to the general ledger at the time the bank reconciliations were completed.

*Criteria* – The College's internal controls should be designed to ensure bank activity is reconciled to the general ledger in a timely manner after each month-end. In addition, bank reconciliations should show signs of review by supervisory personnel and have all supporting documentation attached.

*Cause* – The College did not have processes and procedures in place during the fiscal year to reconcile bank activity to general ledger activity.

*Effect* – The lack of reconciling bank activity to general ledger activity could lead to errors or fraud going undetected.

*Recommendation* – We recommend the College implement controls and processes that allow for the reconciling of bank activity to the general ledger in a timely and accurate manner after each month-end. In addition, reconciliations should show evidence of review by supervisory personnel and be supported by appropriate supporting documentation.

*Management's Response (Unaudited)* – Management agrees.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II – Financial Statement Findings (Continued)**

**Finding 2014-005 – Material Weakness (Repeated) (Continued)**

*Corrective Action Plan (Unaudited)* – Reorganization within the business office will result in more timely and accurate bank statement reconciliation.

**Section III – Federal Award Findings and Questioned Costs**

**Finding 2014-001- Material Weakness (Repeated)**

Please refer to the Financial Statement Findings section for the details of this finding. This finding affects all federal programs listed on the schedule of expenditures of federal awards.

**Finding 2015-001 – Material Weakness**

*Federal Program* – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2015

*Compliance Requirement* – Special Tests and Provisions No. 4 – Return of Title IV Funds

*Condition* – During our testwork, we discovered that for 12 of the 14 students required to have a Return of Funds calculation, no such calculation was performed during the year ended June 30, 2015. The College subsequently performed the calculations and determined that for 7 of the 12 students, a total of \$ 4,514 should have been returned within the 45 day required timeframe.

*Criteria* – The College must determine the amount of unearned Title IV assistance to be returned to the federal government using guidance at 34 CFR 668.22.

*Cause* – The College lacked the internal controls necessary to trigger the calculation of Return of Funds.

*Effect* – The College retained federal funds for longer than allowed and this could impact future funding.

*Questioned Costs* – The amount of Title IV funds not returned timely is \$ 4,514.

*Recommendation* – We recommend the College implement controls that would include reminders or other failsafe procedures that would ensure evaluations of federal funds occur once a student who has received Title IV assistance has dropped out of the College.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs (Continued)**

**Finding 2015-001 – Material Weakness (Continued)**

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – During February 2016, management evaluated this problem and implemented solutions inside the student information system to properly capture the necessary information and to identify those students who need to be evaluated for R2T4. Consequently, records have been cleared and funds have been returned.

**Finding 2012-002 – Significant Deficiency (Repeated)**

*Federal Program* – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2015

*Compliance Requirement* – Special Tests and Provisions No. 8 – Borrower Data Transmission and Reconciliation - Direct Loans only (CFDA No. 84.268)

*Condition* – One of the two reconciliations of School Account Statements (SAS) tested was not performed timely. The reconciliation was performed more than three months after month-end.

*Criteria* – As discussed at 34 CFR 685.102(b), the College is required to perform monthly reconciliations of the School Account Statement data file back to the College's financial records.

*Cause* – The College has not implemented procedures to ensure that the reconciliations are performed monthly and fully documented as such.

*Effect* – Not performing the reconciliation monthly could lead to material differences between the U.S. Department of Education and the College's financial information. These differences would then not be corrected in a timely manner.

*Questioned Costs* – None.

*Recommendation* – We recommend the College implement procedures that will address the lack of timeliness for the SAS reconciliation.

*Management's Response (Unaudited)* – Management agrees.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs (Continued)**

**Finding 2012-002 – Significant Deficiency (Repeated) (Continued)**

*Corrective Action Plan (Unaudited)* – With new leadership in the financial aid office, processes are in place to monitor and perform timely reconciliations to ensure accuracy and allow for corrective actions.

**Finding 2015-002 – Material Weakness**

*Federal Program* – Higher Education – Institutional Aid (CFDA No. 84.031A), U. S. Department of Education, Grant Award No. P031A130116

*Compliance Requirement* – Allowable Costs/Cost Principles

*Condition* – Of the seven employees whose payroll costs were charged to this grant, three employees were missing time and effort documentation, one employee had time and effort signed in March 2016, and another two employees' time and effort documentation did not support the percentage of time charged to the grant. In addition, for four of the seven employees charged to the grant, the amount charged to the grant for payroll costs did not match the supporting payroll register.

*Criteria* – According to OMB Circular A-87 (OMB A-87), Cost Principles for State, Local, and Indian Tribal Governments, "Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after the fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee." It also states that "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit."

*Cause* – The College used budgeted estimates to calculate the percentage and amount to charge to the grant and did not implement controls to ensure that the estimates were adjusted to match the actual time and effort and payroll expenditures incurred as shown on the payroll register.

*Effect* – The College could be allocating unallowed costs to this grant if the assumptions used do not reflect an actual account of the employees' time. The College did over-charge the grant for payroll that did not match the payroll register.

*Context* – A total amount of \$ 212,517 of payroll-related costs were charged to the grant for the year ended June 30, 2015 through one journal entry.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs (Continued)**

**Finding 2015-002 – Material Weakness (Continued)**

*Questioned Costs* – For lack of time and effort documentation - likely questioned costs of \$ 96,798. For payroll costs charged to the grant that did not match the actual amount of payroll costs incurred – known questioned costs of \$ 12,586.

*Recommendation* – Documentation of payroll time charged to Federal programs should be developed to include all required components for all employees charged to each program.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – Implementation of a new payroll system will help tracking of grant payroll in accordance with respective budgets. Furthermore, time and effort documents should be more easily generated and subsequent verification can be ensured. Also, grant supervisors will be made aware of the importance of accurate time and effort tracking.

**Finding 2015-003 – Significant Deficiency**

*Federal Program* – Higher Education – Institutional Aid (CFDA No. 84.031A), U. S. Department of Education, Grant Award No. P031A130116

*Compliance Requirement* – Suspension and Debarment

*Condition* – The College did not ensure that the one vendor tested was not suspended or debarred before the College entered into a contract with said vendor.

*Criteria* – According to 2 CFR 180, the College must ensure that entities are not suspended or debarred when a contract, that is expected to equal or exceed \$ 25,000, is awarded.

*Cause* – The College was not aware of this requirement prior to entering into the contract with the vendor.

*Effect* – The College could enter into a contract or vendor relationship with a suspended or debarred party that could result in questioned costs.

*Questioned Costs* – None.



HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs (Continued)**

**Finding 2015-003 – Significant Deficiency (Continued)**

*Recommendation* – The College should implement controls that would include checking the System for Award Management (SAM) for all contracts expected to exceed \$ 25,000, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity prior to entering into a contract.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – There is currently in progress a bid process for a new addition to a building at a regional campus. Potential contractors are being vetted for compliance with respect to projects funded with Federal dollars.

**Finding 2015-004 – Significant Deficiency**

*Federal Program* – Higher Education – Institutional Aid (CFDA No. 84.031A), U. S. Department of Education, Grant Award No. P031A130116

*Compliance Requirement* – Special Tests and Provisions – Davis Bacon Act

*Condition* – The College did not request or maintain weekly construction payroll records accompanied by a statement of compliance for the one construction contract tested. This contract constituted the majority of the construction expenditures. Also, the requirements of Davis Bacon were not communicated to the contractor tested. Such communication should be within the contract maintained for each contractor.

*Criteria* – The College is required to obtain from the contractor a copy of weekly payroll and a statement of compliance (certified payroll), for each week in which any contract work, funded by certain grants, is performed. In addition, the College should have communicated the Davis Bacon requirements in writing with all applicable contractors.

*Cause* – The College was not aware of the details of this requirement for the construction contracts funded by this grant.

*Effect* – The College is not able to verify whether or not the contractor tested was paying their employees prevailing wage rates in accordance with the Davis Bacon Act.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs (Continued)**

**Finding 2015-004 – Significant Deficiency (Continued)**

*Questioned Costs* – None.

*Recommendation* – We recommend that the College implement procedures to ensure documentation is retained in the vendor files and contracts to demonstrate compliance with the Davis Bacon Act.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – Efforts will be made to ensure that contractors are made aware of Davis Bacon requirements and documents pertaining to Davis Bacon requirements are being provided to management on a weekly basis.

**Finding 2015-005 – Significant Deficiency**

*Federal Program* – Higher Education – Institutional Aid (CFDA No. 84.031A), U. S. Department of Education, Grant Award No. P031A130116

*Compliance Requirement* – Reporting

*Condition* – Certain information included in the Annual Performance Report for the grant year ended September 30, 2014 was not supported by appropriate documentation. The College could not locate the information used to prepare the original report.

*Criteria* – Information reported to the grant must be supported by the accounts and records of the College.

*Cause* –The College was unaware of the necessity of keeping the supporting documentation when preparing the report.

*Effect* – Without proper supporting documentation, the College could be reporting incorrect information to the grantor.

*Questioned Costs* – None.

HIGHLAND COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs (Continued)**

**Finding 2015-005 – Significant Deficiency (Continued)**

*Recommendation* – We recommend that controls be implemented to retain the supporting documentation used to prepare the Annual Performance Report.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – As a result of a recent compliance review for the grant, a number of areas were highlighted where better documentation and procedures were needed. Consequently, those matters have been addressed and will be in place as we move forward.

HIGHLAND COMMUNITY COLLEGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2015

**Financial Statement Findings**

**Finding 2014-001 – Material Weakness**

*Condition* – Significant asset and liability accounts are not recorded or reconciled on the College's general ledger system in a timely manner. The computer system for maintaining student accounts receivable information cannot show an appropriate roll-forward balance. The accounts receivable system allows different departments to make changes to student balances for any semester at any time.

*Criteria* – The College's internal controls should be designed to ensure financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in a timely manner.

*Cause* – The College's financial reporting internal control structure is not functioning in a manner that allows the College to maintain information to provide financial statements in accordance with GAAP in a timely manner.

*Effect* – Although the College continues to make strides in identifying significant journal entries, there remained required journal entries which were not initially identified by the College's internal controls. Reconciliation in such areas as cash, receivables, unearned revenues, and other accrued liabilities were not performed timely resulting in financial statements not being maintained in accordance with GAAP.

*Recommendation* – We recommend the College implement controls and processes to record all adjustments needed to present financial statements in accordance with GAAP in a timely manner.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – Modifications to processes and reports will be made to allow for adjustments to be made in compliance with GAAP in a timely manner.

*Follow-up* – This finding is repeated.

**Finding 2014-002 – Material Noncompliance**

*Condition* – With the implementation of a new accounting system in fiscal year 2014, the College was not able to provide actual budgetary activity that is comparable to the published budget for fiscal year 2014. In addition, unencumbered cash by individual fund cannot be determined.

*Criteria* – The College's internal controls and financial reporting processes should be designed to ensure compliance with Kansas statutes (specifically K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935).

HIGHLAND COMMUNITY COLLEGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Finding 2014-002 – Material Noncompliance (Continued)**

*Cause* – The College’s financial reporting internal control structure was not designed to allow the College to maintain information to provide budgetary information in accordance with the Kansas Municipal Audit and Accounting Guide (KMAAG).

*Effect* – The College is not able to demonstrate compliance with K.S.A. 10-1117, K.S.A. 79-2934, or K.S.A. 79-2935.

*Recommendation* – We recommend the College implement controls and processes to report budgetary information to be in compliance with K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935.

*Management’s Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – Reports from the new computer system should allow for adequate budgetary information to be provided and in turn allow for implementation of internal controls to demonstrate compliance with said statutes.

*Follow-up* – This finding is repeated.

**Finding 2014-003 – Significant Deficiency**

*Condition* – One employee has the ability to access the payroll system, process payroll, and generate signed checks. In addition, one employee has the ability to access the accounts payable system, process accounts payable checks, and generate signed checks. Lastly, a supervisor has the ability to process and generate signed checks.

*Criteria* – The College’s internal controls should be designed to ensure proper segregation of duties in the cash disbursement cycle.

*Cause* – The College’s payroll, accounts payable, and check writing controls are not properly designed to appropriately segregate duties for certain employees.

*Effect* – The lack of segregation of duties could lead to potential errors or fraud.

*Recommendation* – We recommend the College implement controls and processes that allow for the segregation of duties within the payroll and accounts payable cycles and to segregate the duties between processing and review.

HIGHLAND COMMUNITY COLLEGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Finding 2014-003 – Significant Deficiency (Continued)**

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – Segregation of duties will be visited and subsequent processes examined leading to changes in internal procedures to comply with recommendation.

*Follow-up* – This finding is repeated.

**Finding 2014-004 – Significant Deficiency**

*Condition* – One supervisory employee has the ability to process and record journal entries that are not reviewed by another employee. This same employee is responsible for review of the bank reconciliation and has the ability to process and generate signed checks.

*Criteria* – The College's internal controls should be designed to ensure proper segregation of duties and review in the journal entry process.

*Cause* – The College's controls over journal entries are not properly designed to appropriately segregate duties.

*Effect* – The lack of segregation of duties could lead to potential errors or fraud.

*Recommendation* – We recommend the College implement controls and processes that allow for the segregation of duties within the journal entry cycle and to segregate the duties between processing and review.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – A process for reviewing, recording, and approving journal entries will be implemented to ensure appropriate segregation of duties.

*Follow-up* – This finding is repeated and upgraded to a material weakness in 2015.

**Finding 2014-005 – Significant Deficiency**

*Condition* – The bank reconciliations from September 2013 – June 2014 were not completed in a timely manner after each month-end and did not show signs of review. In addition, for one of the bank reconciliations selected for testing, a supporting outstanding check list could not be provided.

HIGHLAND COMMUNITY COLLEGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Finding 2014-005 – Significant Deficiency (Continued)**

*Criteria* – The College’s internal controls should be designed to ensure bank activity is reconciled to the general ledger in a timely manner after each month-end. In addition, bank reconciliations should show signs of review by supervisory personnel and have all supporting documentation attached.

*Cause* – The College did not have processes and procedures in place during the fiscal year to reconcile bank activity to general ledger activity.

*Effect* – The lack of reconciling bank activity to general ledger activity could lead to errors or fraud going undetected.

*Recommendation* – We recommend the College implement controls and processes that allow for the reconciling of bank activity to the general ledger in a timely manner after each month-end. In addition, reconciliations should show evidence of review by supervisory personnel and be supported by appropriate supporting documentation.

*Management’s Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – Bank reconciliations will be scheduled for review, completion, and approval on a timely basis.

*Follow-up* – This finding is repeated and upgraded to a material weakness in 2015.

**Federal Award Findings and Questioned Costs**

**Finding 2014-001- Material Weakness**

Please refer to the Financial Statement Findings section for the details of this finding. This finding affects all federal programs listed on the schedule of expenditures of federal awards.

**Finding 2013-001 – Material Weakness (Repeated)**

*Federal Program* – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2014

*Compliance Requirement* – Special Tests and Provisions No. 4 – Return of Title IV Funds

HIGHLAND COMMUNITY COLLEGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Finding 2013-001 – Material Weakness (Repeated) (Continued)**

*Condition* – During our testwork, we were unable to obtain a complete, accurate population for students with Return of Funds activity. As such, the Return of Funds testing was not able to be completed.

*Criteria* – The College must determine the amount of unearned Title IV assistance to be returned to the federal government using guidance at 34 CFR 668.22. The College should have internal controls that would include a mechanism to trigger when a Return of Funds calculation is necessary.

*Cause* – The College lacked the internal controls necessary to trigger the calculation of Return of Funds. The inability to analyze when Return of Funds is necessary in turn hampered the College's ability to produce an accurate, complete population.

*Effect* – The College could have retained federal funds for longer than allowed and this could impact future funding.

*Questioned Costs* – Unknown.

*Recommendation* – We recommend the College implement controls that would include reminders or other failsafe procedures that would ensure evaluations of federal funds occur once a student who has received Title IV assistance has dropped out of the College.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – A process for monitoring student attendance and enrollment for purposes of performing the Return to Title IV calculation was developed during the 2014-15 academic year, and fully implemented for the Fall 2015 semester.

*Follow-up* – This finding is resolved. During FY 2014-2015, Return of Fund calculations were made for FY 2013-2014 and returned to the U.S. Department of Education.

**Finding 2012-002 – Significant Deficiency (Repeated)**

*Federal Program* – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2014

*Compliance Requirement* – Special Tests and Provisions No. 8 – Borrower Data Transmission and Reconciliation- Direct Loans only (CFDA No. 84.268)



HIGHLAND COMMUNITY COLLEGE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Finding 2012-002 – Significant Deficiency (Repeated) (Continued)**

*Condition* – Reconciliations of School Account Statements (SAS) were not performed timely. The reconciliations tested were performed five to six months after month-end.

*Criteria* – As discussed at 34 CFR 685.102(b), the College is required to perform monthly reconciliations of the School Account Statement data file back to the College's financial records.

*Cause* – The College has not implemented procedures to ensure that the reconciliations are performed monthly and fully documented as such.

*Effect* – Not performing the reconciliation monthly could lead to material differences between the U.S. Department of Education and the College's financial information. These differences would then not be corrected in a timely manner.

*Questioned Costs* – None.

*Recommendation* – We recommend the College implement procedures that will address the lack of timeliness for the SAS reconciliation.

*Management's Response (Unaudited)* – Management agrees.

*Corrective Action Plan (Unaudited)* – A process for performing timely SAS reconciliations each month was developed and implemented for the Fall 2014 semester.

*Follow-up* – This finding is repeated.



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Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees  
Highland Community College:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Highland Community College (the College) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 24, 2016. Our report contained a qualified opinion because we were unable to obtain sufficient appropriate audit evidence to support tuition revenue. Our report includes a reference to other auditors who audited the financial statements of Highland Community College Foundation (the Foundation), as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding 2014-001, 2014-004, and 2014-005 to be material weaknesses. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-003 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-002.

### **The College's Response to the Findings**

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Berberich Trahan & Co., P.A.*

March 24, 2016  
Topeka, Kansas



BERBERICH TRAHAN & CO., P.A.  
Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

The Board of Trustees  
Highland Community College:

### **Report on Compliance for Each Major Federal Program**

We have audited Highland Community College's (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the College's major federal programs for the year ended June 30, 2015. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the College's compliance.

### **Basis for Qualified Opinion on the Student Financial Assistance Cluster and Higher Education – Institutional Aid**

As described in the accompanying schedule of findings and questioned costs, the College did not comply with requirements regarding the Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063 and 84.268) as described in Finding 2015-001 for Special Tests and Provisions – Return of Title IV Funds. The College also did not comply with requirements regarding Higher Education – Institutional Aid (CFDA No. 84.031A) as described in Finding 2015-002 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the College to comply with the requirements applicable to those programs.

### **Qualified Opinion on the Student Financial Assistance Cluster and Higher Education – Institutional Aid**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Student Financial Assistance Cluster and Higher Education – Institutional Aid for the year ended June 30, 2015.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2012-002, 2014-001, 2015-003, 2015-004, and 2015-005. Our opinion on the major federal program is not modified with respect to these matters.

The College's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2014-001, 2015-001, and 2015-002 to be material weaknesses. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2012-002, 2015-003, 2015-004, and 2015-005 to be significant deficiencies.

The College's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Berberich Trahan & Co., P.A.*

March 24, 2016  
Topeka, Kansas